HOLDS READJUSTMENT NEEDED IN COTTON TEXTILE INDUSTRY

RISING PRICES OF RAW MATERIAL BIG FACTOR

Expert Sees It as Market Necessity That Goods Values Go Up With Costs of Operation Standing on Their Present Levels.

By Robert Amory.
Of Amory, Browne & Co.

To get a true idea of the past year's position in its relation to the manufacture and distribution of cotton goods in this country and the possibilities of 1923 it is necessary to look back, as well as around and ahead. The armistice of November 11, 1918, stopped the war machine in full career. The stop was so abrupt that the machine stalled and it was some months before the motor could be started again and its force directed towards replenishing the ravages of war. Once started, however, a feverish activity developed. Ordinary business sense, atrophied and deformed by the madness of the war, price fixing, cost plus contracts, and all their attendant evils, was forgotten. Manufacturer, jobber, and retailer had only one thought—that of filling the vast tiers of shelves which they reasoned must have been emptied by the five years' cataclysm.

Not Enough Money to Pay Debts.

They forgot, however, that not only had the shelves been emptied, but pocketbooks were in reality nearly empty through the depreciation of the currencies of the world and the practical abandonment of the gold standard. Prices increased in every direction. Paper profits were pyramided until in the spring of 1920 some people found out that there was not enough money to liquidate outstanding debts, and a reaction started. Cotton in the raw was selling at 43 1-4 cents; thirty-eight and one-half inch sixty-four-sixty 5.35 yard print cloths had reached 26 cents, high marks for both since the War Between the States. The downward movement, once started, exceeded in speed the upward movement, and in twelve months—that is, by the spring of 1921—spot cotton was selling at around 11 3-4 cents (afterwards going to 11), and print cloths at 6 1-8 cents.

Business Men Caught Napping.

Now, to the careful students of economics, who are for the large art withdrawn from the turmoil of active business and so can more easily maintain an objective viewpoint, this violent action and reaction was entirely normal. Such movements have followed every disturbance of world magnitude. But the ordinary business man caught and spent the latter part of 1920 trying to save what he could from the wreck.

Nineteen hundred and twenty-one was a year of hoping against hope, of the wish for good business being father to the thought, and, sure enough, after a period of backing and filling in the summer the cotton market suddenly spurted from 15 cents in August—a rise from 11 cents in June—to 21 1-8 cents by the end of September, only to sag slowly to 18 cents by the end of the year. Print cloths had followed the cotton market up to 8 1-4 cents per yard in the [illegible] attempt to get replacement values.

It should be noted here that this sharp rise was unwarranted, for it had no real place in the general economic trend. It was caused by the fact that although the 1922 cotton crop was small, the Government estimate of September was so low as to scare everybody, and there was a rush to cover. The November estimate and the final crop figures proved the September estimate too low and the situation adjusted, cotton slipping back to a price justified by the crop and the general situation.

Improvement in 1922.

The industry started 1922 in a little better frame of mind than in 1921. The worst had probably happened and the spark of hope kindled in the late summer and early fall spurt had not been entirely extinguished by the subsequent minor reaction.

It was generally conceded that cotton and wages were too high. Goods were not moving, and until costs were reduced the ever elusive replacement price was beyond [illegible] distance. Wages had been reduced once, in January, 1921. They were still double the pre-war figure. Cotton and its manufactures were at a trifle more than the price level above the pre-war basis and were steadily working lower. A number of New England manufacturers cut wages and immediately the operatives struck. This was in February, 19[illegible].

Two questions were involved in this strike—hours and wages. The representatives of the strikers protested that the attempt to extend the hours of work from forty-eight to fifty-four in those States where it was not forbidden by law—Massachusetts being the only industrial State to have passed such legislation—was a reactionary measure and must be fought out.

Effect of Textile Strike.

It was to be expected that the strike would drive the cotton market down. As a matter of fact, it moved [illegible] upward. After [illegible] occasional recessions, during the first months of the technical position of the market the goods market followed along in a desultory way. Print cloths, 64x60, reached their [illegible] in March. The natural surmise would be that with reduced consumption, due to the New England strike, cotton would have fallen and with lessened production the goods market should have been firmer. As a matter of fact, neither happened.

The great Southern plants with the longer working hours and lower wages [illegible] night shifts and with the exception of a few [illegible] branded goods, both cotton and its manufactures [illegible] sluggish, but generally upward trend in their respective ways until it became evident in early October that the much-talked-of short cotton crop was a reality. Then the market shot up from 21.95 on September 29 to 26.30 on November 11, and print cloths from 8 cents to 10 cents. Other staple goods moved up too.

Speculation Encouraged.

Speculative buying developed and prices in general were driven up until they reached a point where the mills did not dare sell goods unless they could at least get a new dollar in goods for the old dollar that they were obliged to spend for cotton and wages. But no one would pay that price. First hands bought their own goods, bought by speculators early in the rise, offered at a lower price than the first hands they represented could produce them for. First-hand selling stopped, and there the situation rests at the present writing.

What has been said about goods has been based entirely on the fluctuations of thirty-eight and one-half-inch sixty-four by sixty 5.35 yard print cloths. This construction has been used as a yardstick and its fluctuations represent pretty well the movements of all the basic gray cloths. Ginghams and other kindred fabrics, where the style element plays an important part, have followed the general price curve of gray cloths, but their movements have been less spectacular, due to the fact that the fashion demand made them a little more independent of general conditions in the trade than the "bread and butter" lines.

What has 1922 shown? It was mentioned earlier in this article that all great world disturbances have been followed by a comatose period, followed by a feverish bull market and equally feverish slump. It is also true that these movements have been followed by a similar movement of a slightly less acute rise and a more gradual slump, flattening out to a reasonably stable level, in which fluctuations were distinctly minor for a number of years. We have seen in 1920 and 1921 the peak of an upward movement and the depth of a recession in both cotton, and its manufactures, for the two are inseparable in their consideration.

Outlook for 1923.

If past performances is to be accepted as a criterion the goods market should advance very gradually for at least the first few months of 1923, after the now existing supply of goods in second hands has been absorbed. Of course, such a prediction is predicated entirely upon the supposition that the present world situation will not develop any serious disasters. There is no question of a shortage of cotton, particularly of a good workable character. Only one thing can remedy that situation and that is more cotton. More cotton cannot be obtained until it is planted, grown and picked, and that time is a long way off. It is true that the prospects of increased acreage and effective methods of combatting various pests, such as the weevil, might well "bear" the cotton market and, therefore, the goods market, but those hopes or fears, as the case may be, can have no really substantial effect before summer on the amount of money a spinner must pay for cotton to run his mill.

Wages Will Not Drop.

In the light of the past ten months' experience in every line of industrial endeavor it is not a probability that wages will drop. It is assumed that cotton will rule around its present or possibly higher levels for the next five or six months. There is hardly a mill that can manufacture staple gray goods on the basis of today's cotton and wages and get its money back, let alone make a profit when it sells them. It is inevitable that the market will reach a point eventually where this situation will be rectified. Unless wages and cotton go down substantially, which is highly improbable, goods must go up or mills go out of business, which is unthinkable.

To sum up: The price of cotton goods since the conclusion of the World War has followed the primary action and reaction of practically all other commodities. It is probable that a secondary movement up and down will take place [illegible] precedent is valueless and that the prices of cotton goods will follow those trends. It is evident that even though the trend is upwards, and it is not unreasonable to assume that with the strong supporting factors of high raw material and wages, coupled with a quiet but fairly persistent demand, that the trend will continue upwards, or at least continue firm through 1923. Certainly there should be no more than temporary recessions such as are inevitable in every bull movement until the uncertainties of the 1923 cotton crop make themselves felt.

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MUST MAKE GOOD EQUIPMENT SHORTAGE

(Continued From Page Nine.)

[illegible] by the [illegible].

So much for 1922. The outlook for the coming year due to the large [illegible] and the known needs of the railroads is decidedly better. Most plants have work enough ahead [illegible] months and some have orders [illegible] sufficient to carry them practically through the year. [illegible] prices recently [illegible] have been somewhat better and should show a [illegible] profit if there are no further advances in cost of labor and material and if sufficient volume of business can be maintained to keep overhead expenses within reasonable limits.

In a recent speech before the Railway Business Association in New York, Charles H. Markham, president of the Illinois Central Railroad, made the statement that "in the five years ending with 1921 the number of locomotives in service actually decreased [illegible]. In the same period the number of freight cars in service actually declined 13,521, and that [illegible] capacity of the equipment provided has been accompanied by a corresponding decrease in the other facilities provided." While these facts have been known [illegible] extent, the seriousness of the situation has not been generally appreciated. It is well to quote in full the following paragraphs from Mr. Markham's address:

Effect of Regulation.

"In the five years ending with June 30, 1907, the number of locomotives in service on the railroads of the United States increased 16,160. [illegible] of the [illegible] coincided with the [illegible] restrictive regulation. Compare this with the [illegible] that have occurred since June 30, 1912, the increase in the number of locomotives in service was only [illegible]; in the four and one-half years ending with December 31, 1916, only [illegible]; and in the five years ended with 1921 the number of locomotives in service actually decreased [illegible]. The locomotives retired were constantly being replaced with more powerful engines, and the increase in the total tractive power, or the total pulling ability of the locomotives in service in the first five years of the period was 610,000,000 pounds; in the next five years it was only 338,000,000 pounds; in the four and one-half years 267,000,000 pounds, and in the five years ending with 1921 only 262,000,000 pounds.

"Now, take freight cars. In the five years ending with June 30, 1907, the number in service increased over 480,000. In the next five years it increased less than 230,000; in the four and one-half years ended December 31, 1916, it increased only 114,000; and in the five years ended with 1921 the number of freight cars in service actually declined 13,521. The cars retired were constantly replaced with cars of larger capacity, and the increases in the total capacity of the freight cars in service were as follows: five years ended with 1907, 23,000,000 tons; five years ended with 1912, 16,000,000 tons; four and one-half years ended with 1916, 12,000,000 tons; five years ended with 1921, 3,500,000 tons.

"Comparison of the figures for the two five-year periods farthest apart shows that the increase in the total tractive power of locomotives was almost 60 per cent less, and the increase in the total capacity of freight cars 85 per cent less in the five years ended with 1921 than in the five years ended with 1907. Probably these statistics afford as good a measure as could be given of the decline in the expansion of the railways which has occurred."

Need for Transportation.

The cars and locomotives built in recent years have been of increasing capacity and there has been greater efficiency in handling. Making full allowance for this, however, it is very evident that transportation facilities have not kept pace with the growth of the country. The railroads have been overregulated and have not been in a position to earn or borrow the funds necessary to keep their development up with the expansion of other industries and the country generally.

Even under the most favorable conditions it is going to take several years and an enormous amount of money for the carriers to catch up with the growth of the country and put themselves in position to furnish adequate transportation facilities. The present shortage represents an accumulation over a period of ten or fifteen years of excessive regulation and restriction. In addition the situation has been temporarily aggravated by the strikes of the coal miners and the railroad shopmen.

Demand for transportation, in the meantime, is still further increasing, and there is very serious complaint, particularly from the agricultural districts, of loss of markets and crops due to the inability of the railroads to handle shipments. Unless the public can be brought to an understanding of the real facts of the situation, the present unsatisfactory transportation conditions are liable to find expression in hasty and ill-advised legislation in the coming session of Congress.

There is a good deal of talk about lower freight rates on farm products. James R. Howard, president of the American Farm Bureau Federation, has been quoted as stating that "the total outlay of the farmer for freight transportation is not more than 8 per cent of his expenditures." Assuming this figure to be correct, although it is believed to be high, a 10 per cent reduction in freight rates would only be a fraction of 1 per cent of the farmer's budget.

And yet a cut of this size might prove disastrous to the railroads unless there were compensating increases in rates on other commodities.

What the farmer needs is better markets for his products and lower former involves the foreign situation and the latter is largely controlled by costs for the things he buys. The labor costs. It is difficult to see how there can be any material decrease in wages without increased supply of labor, and this brings in the immigration question.

Busy Year Ahead.

What the farmers and the whole country really need is not lower freight rates, but better transportation facilities, and these are only possible if the railroads are allowed to earn a sufficient return on the invested capital to attract additional capital.

During the period of liquidation in 1920-21, which proved so disastrous to many industries, there were comparatively few failures among the railway equipment and supply companies. This was due no doubt largely to the fact that there had been no overexpansion during the war period and that the character of the business is such that it is not necessary or possible to carry large inventories; as a rule, materials can be bought only after orders are taken. The industry as a whole, therefore, is in sound condition, and while its capacity has not been well occupied for several years past, the plants have been maintained and can be reorganized in a comparatively short time to take care of even the large volume of business which is bound to come sooner or later.

Assuming, as we believe, that in the end the public and Congress will deal fairly with the railroads, there is sufficient business ahead of the railway equipment and supply companies to keep them well occupied for several years.

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ORDERS 5,000 CARS

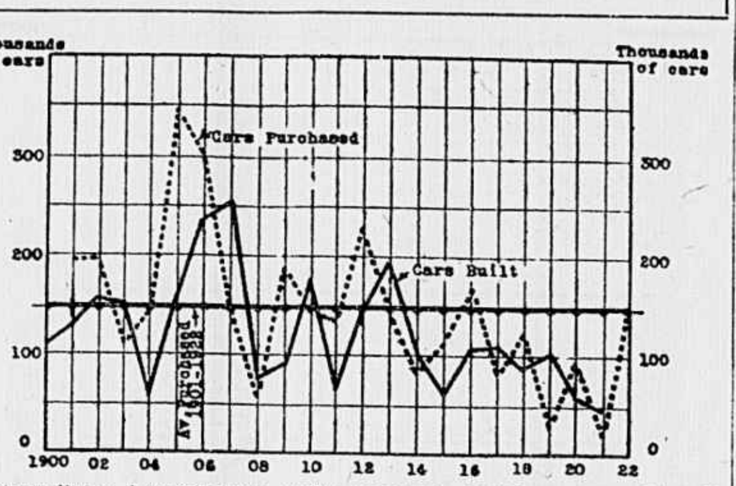
B. & O. to Spend More Than $17,000,000 at Once.

[By Associated Press.]

BALTIMORE, MD., Dec. 30.—Orders for 5,000 freight cars have been placed with half a dozen car builders by the Baltimore and Ohio Railroad, it was announced at the executive offices of the company today. Four thousand are to be all-steel hopper cars and the remainder steel gondolas. It is understood the cost will be between $10,000,000 and $12,000,000.

The company also stated that bids are being considered for between 1,000 and 2,000 steel underframe and steel center-sill box cars.

RAILROAD CAR BUILDING GAINS



Extraordinary demands were made upon the railroad facilities of this country when traffic was at its peak, last October. Embargoes had to be placed on many classes of freight and this brought home to the public the seriousness of the railroad equipment situation. Facilities have fallen far behind the growth of the country. Accumulated shortage represents ten to fifteen years of insufficient buying. Car buying during the past year was a prominent feature of industry, and it bids fair to continue next year. If the carriers are to catch up with the country, however, their outlays for equipment in the future will have to be much heavier than in recent years.

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PETROLEUM INDUSTRY MEETS TEST DURING NEW YEAR

Output Has Outrun Demand and Heavy Stocks Spell Large Profits if Prosperity Comes and Severe Losses if Cycle Is Short.

By Joseph E. Pogue.
Author of the "Economics of Petroleum."

The petroleum industry has just closed a second year of overproduction. Does 1923 promise relief from this unhappy condition or will the industry continue a victim of its own momentum? Should a future depression entrain the industry before it succeeds in working off the burden of its top-heavy stocks the results will be disastrous in the extreme. Yet optimism in the industry looks to an early shortage to correct the excesses of an oversupply that, in the face of vigorous demands, has built up inventories with a value in excess of three-quarters of a billion dollars, reckoned at depreciated prices now current.

Oversupply of Crude.

The supply of crude petroleum at present writing is approximately 1,900,000 barrels a day. Of this volume, about 1,650,000 barrels come from the oil fields of the United States, while about 250,000 barrels are imported from Mexico. Consumption is running between 1,600,000 and 1,700,000 barrels daily. This gives a surplus, for the moment, of 200,000 barrels or more per day. During most of the year the surplus ran higher, but in October and November the oversupply narrowed almost to the vanishing point, because the refineries were running more oil than they could market; since then the margin has enlarged to some extent.

The consumption requirements for all the products of petroleum are increasing, and increasing rapidly. Obviously, then, the situation is in the way of correcting itself, given time and granted a slowing down in the rate at which crude petroleum is brought upon the market. But right here is the great risk the industry is running—the uncertainty as to the length of the present period of business activity and the possibility that the momentum of the industry may lead to a continued increase in oil field production instead of a slowing down in output.

Big Stocks a Problem.

The status of the entire petroleum industry, from the largest integrated company down to the smallest producer or refiner, is intimately involved in the magnitude of the crude oil stocks held by the principal crude oil purchasing agencies. These stocks, it will be recalled, are close to 300,000,000 barrels in aggregate volume; were increased from 130,000,000 barrels to their present figure during the past two years; represent an average first cost of perhaps as much as $2.50 a barrel; entail a storage expense of upward of 50 cents a barrel a year, and are still being added to. The accumulation of this enormous volume of oil was undertaken in the belief that the encroachment of salt water in the light oil fields of Mexico would so curtail our imports of Mexican petroleum as to create a shortage and afford a profitable outlet for this reserve. Now that the decline in Mexican shipments, though coming according to schedule, has been offset by a concomitant increase in domestic production of crude oil, the presence of this vast storage reserve interjects an artificial element into the situation that may be hard to reckon with. The accumulation of this supply, largely at relatively high prices, stimulated production in excess of consumption; and far from stabilizing the industry, as was its purpose, these stocks now stand as a danger point which may either precipitate ruinously low prices in the event of continued overproduction or else lead to premature advances in price to levels that cannot be sustained.

New Methods Spur Output.

The increase in domestic production from 1,350,000 barrels daily the first of the year to upwards of 1,650,000 barrels at the close, is noteworthy. This increase of 22 per cent in twelve months is the result of improved technology—better and more extended use of geology, deeper drilling, and faster drilling. A few years ago 3,000 feet marked the limit of commercial oil production; now 3,000-4,000 feet is commonly penetrated by the drill, and even the zone between 4,000 and 5,000 feet is yielding an appreciable portion of our output. Few wells are now located without the aid afforded by geology; the number of accredited professional geologists has grown from a few dozen to over a thousand in the space of a very few years, and the effectiveness of geological methods has been greatly enhanced through the rapid development of the science. In a sense the geologist has done his work too well, for oil seems for the moment too easy to find. These factors have been of the utmost importance during the past year, and bid fair to continue to influence production in a substantial, though unpredictable, degree.

Also the ability to convert crude petroleum into gasoline has gone steadily forward—so much so, indeed, that the proportion of crude petroleum conveted into gasoline during the third quarter of 1922 was 26.4 per cent, as compared with 20.7 per cent for the third quarter of 1918 and 24.0 per cent for the third quarter of 1921. This rapid advance in refinery effectiveness is most important; thus in the past four years the gasoline-producing capacity of our crude oil supply has been increased over 27 per cent, aside from an increase in the volume of crude. Thus growing technical efficiency is contributing to the net supply of gasoline, reducing the relative volume of crude petroleum required for this purpose. Perhaps we have here an important element in the explanation why gasoline is being overproduced in spite of the remarkable rate of increase in its consumption. The same consideration points to the necessity for discounting the volume of crude needed next year to provide for the increased gasoline requirements of the country. The question, indeed, may be asked whether the industry has not lost sight of this factor when counting on the increase of gross demand that is hoped for as an early corrective of present overproduction.

New Buying Method.

To add to the uncertainty existing in the petroleum situation, the major crude oil purchasing agencies in the Mid-Continent field have recently superseded the plan of buying all crude oil offered, irrespective of quality, at a fixed price of $1.25, by a graded price ranging from 30 cents to $1.80, according to the gravity (which means the gasolene content) of the oil. This new graded price means in one sense an increase in price offered, although heretofore much of the high quality oil was taken by local refiners, who paid a premium over the price posted by the purchasing agencies in order to get this superior oil and assure themselves of a sustained supply; and if premiums are taken into consideration the new prices represent substantially no change in realization.

The establishment of a graduated scale in the Mid-Continent arose out of a peculiar and anomalous situation obtaining in that part of the country. The local refiners, who run to stills nearly a quarter of all the crude oil refined in the United States, have been for months exercising the keenest competition in bidding for high-gravity crude, in spite of the fact that they were overproducing gasolene and in general creating an artificial excess demand for crude petroleum. The immediate effect of these competitive efforts was that the local refiners were getting most of the quality crude and the large purchasing agencies were getting oils with low gasolene content. The new scale of graduated prices was obviously designed to attract a better grade of oil to the pipe lines and tank farms of the larger interests. This change in buying policy is generally interpreted as reflecting a relative shortage of high-grade crudes in the face of an oversupply of crude oils with a low content of gasolene; but one might feel surer of such a conclusion if he did not realize that the local refiner for some time has been glutting the market with gasolene and depressing the price of gasolene to levels approximating the lows of 1921 and in consequence was representative of an uneconomic and unhealthy demand that was anyhow headed for its own destruction.

The ultimate effect of the graduated price, of course, will be to cause the local refiner to curtail his runs and in some cases go out of business, leaving the purchasing agencies with ample opportunity to accumulate their supply undisturbed by competitive bids based upon hopes rather than the spread between cost and realization.

Big Profits or Trouble?

But in spite of all the difficulties and uncertainties that beset the petroleum industry at the present time it is not improbable that 1923 may see the crossing of the lines of supply and demand and a consequent era of rising prices and expanding profits. If the industry is lucky this will happen. But what if production goes on increasing or if the present business cycle turns out to be a short one? In such event, the petroleum industry may well hesitate to face the sequel.

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TEXTILE CORPORATIONS DECLARE DIVIDENDS

[By Associated Press.]

FALL RIVER, MASS., Dec. 30.—Dividends of textile corporations in this city for the year 1922 amounted to $3,423,050, an average of 9.324 per cent on a capitalization of $41,960,000, according to statistics furnished today by G. M. Haffards and Company. This is $509,175 more than was distributed in 1921, but $6,344,250 less than the total for 1920, the record year for the textile industry here.

The close of the year finds the capitalization of local corporations increased from $41,960,000 to $44,815,000 as a result of stock dividends declared by eight corporations.

Buy Three Newspapers.

NEW YORK, Dec. 30.—John H. Perry, of New York, who with Richard Lloyd Jones, of Tulsa, Okla., owns a string of newspapers in the South and Southwest, announced today that they had bought the Minneapolis News and two papers in Reading, Pa., the News-Times and the Telegram. The Minneapolis News changes hands February 1 and the other two papers March 1.